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SIPDIS

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TAGS: ECIN PREL TU AU EUN
SUBJECT: AUSTRIAN BANK HIGHLIGHTS BENEFITS TO EU OF TURKISH MEMBERSHIP

SUMMARY

¶1. (U) A recent study by Austria's largest bank, Bank Austria Creditanstalt, concludes the EU would benefit economically from Turkish membership and that costs would be approximately the same as the costs from the May 2004 enlargement. There are certain caveats associated with Turkish membership, but the study clearly lays out the economic benefits to the EU from Turkey's strong growth potential and youthful workforce. The study declares Turkey's accession is an affordable investment, which would yield economic dividends to the EU. End Summary.

Benefits of Turkish EU Membership..

¶2. (U) Austria's largest bank, Bank Austria Creditanstalt, recently published a study on the economic impact of Turkish membership on the EU. The principal message is that the EU would economically benefit from Turkish membership. The study also predicts that membership costs would not exceed the costs of the May 2004 enlargement. The study lists the following economic and political benefits accruing from Turkish membership:
-- a large internal market with huge growth potential;
-- a window to the countries farther east for EU exports;
-- substantial FDI potential;
-- alternative supply routes to Europe for oil and gas;
-- incentives for further fiscal discipline within the EU;
-- a strategic partner with abundant water supplies;
-- a young population compared to the EU's aging workforce; and
-- continued focus by Turkey on observing human rights.

The study also emphasizes that it is impossible to quantify the positive influence on regional stability of Turkish membership compared to the cost of future subsidies for Turkey.

..and Some Caveats

¶3. (U) The report lists the following caveats that could impede Turkey's progress towards accession:
-- reforms depend on continued political stability and commitment;
-- strong economic growth depends on increased levels of FDI and progress on structural reforms; and
-- instability in northern Iraq could negatively impact the Turkish economy.

Young Population and Dynamic Economic Growth

¶4. (U) The Bank Austria study emphasizes the advantages Turkey's young workforce would bring to the EU. With the median age expected to rise from 25 presently to 33 in 2025, Turkey's population would still be considerably younger than the EU average. The median age in Germany, the study notes, will rise from 40 to 48 during the same period. In 2025 in a EU-29 (i.e. with the expected addition of Bulgaria, Romania, and Croatia, as well as Turkey), Turkey would be the most populous country, assuming current population growth projections.

¶5. (U) With its dynamic growth prospects, Turkey's importance as a strategic and economic partner for the EU will increase even more after membership. Turkey's total GDP is about half of the combined GDP of the ten new EU members. However, the study maintains that Turkey's current growth potential is about 6% annually. Turkey, according to the study, is already "catching up quickly," in particular compared to certain new EU member states and candidates (e.g., Poland, Hungary, Romania, and Bulgaria). Turkey's per capita GDP already exceeds that of Bulgaria and Romania, and the per capita income of half the Turkish population is equal to Poland's per capita income.

¶6. (U) If the Turkish Government continues its reforms and prudent fiscal policies, the study predicts the total public sector deficit will fall below 3% of GDP by 2007 and the public sector debt to below 60% by 2009. Thus, according to the study's projections, Turkey would meet the Maastricht deficit and debt criteria well ahead of its anticipated accession date.

Membership Costs

¶7. (U) The study argues that Brussels can afford to absorb Turkey into the EU. The study estimates total annual net costs of Turkish membership for the EU of Euro 10.8-35.1 billion (USD 14.0-45.6 billion), based on Turkish EU contributions of Euro 8.1 billion (USD 10.5 billion) and EU payments to Turkey of between Euro 18.9-43.2 billion (USD 24.6-56.2 billion). This estimate is based on the following assumptions: annual GDP growth of 2.3% in the EU-25 and 6% in Turkey; and EU payments for regional programs varying between 1-4% of Turkish GDP. At the high-end of the estimate (Euro 35.1 billion), this would represent 0.21% of the combined EU-25 GDP or 19% of the EU budget (assuming budgetary policies remain unchanged). Turkish membership costs would therefore be roughly equal to the costs of the 2004 enlargement. The study opines this would be affordable, and that changes to the EU's financing and subsidy regime, particularly in agriculture, in the medium-term would ease the process.

Comment

¶8. (SBU) Turkish EU membership is an emotional issue in Austrian society, with many warning that accession would lead to limitless Turkish immigration and enormous costs. The Bank Austria Creditanstalt study presents another face of Austria, one that is outward looking, export-oriented, and constantly seeking new commercial opportunities. The study objectively challenges fears that the EU cannot afford Turkish membership.
BROWN